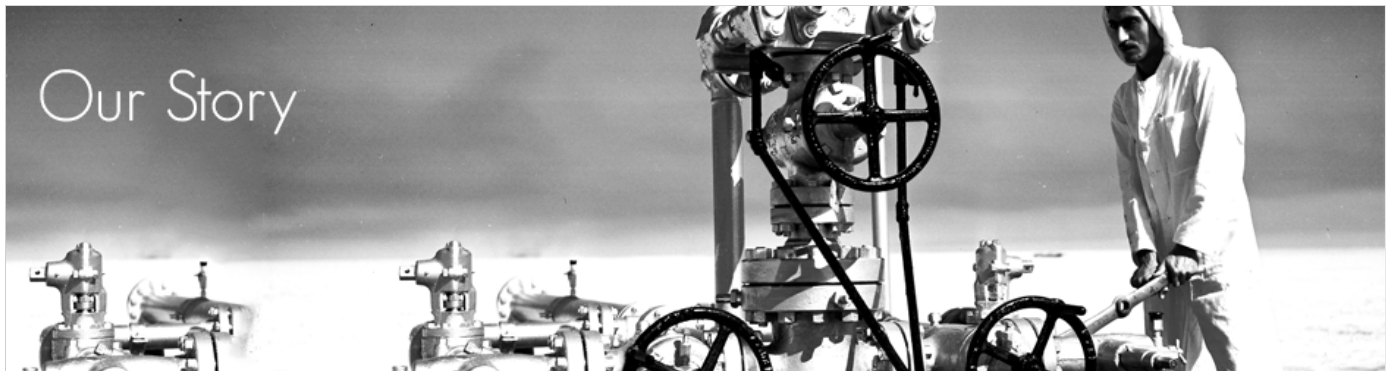


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The birth of Kuwait Petroleum Corporation (KPC) is rooted in a saga that is worthy of an epic drama. KPC is a child of the turbulent 1970s, when conflict scarred the Middle East.

THE BIRTH OF A GIANT:

To understand the turn of events that led to the formation of KPC, one must consider the underlying forces that were in play during those times. Those were the twilight years of post-colonialism, the period that witnessed the coming of age of nationalism. People of the developing world were demanding sovereignty, especially of their national assets. Across the world, the oil markets were on an unprecedented roller-coaster ride. Kuwait had attained independence in 1961. Subsequently, it became a member of the United Nations (UN) in 1963. Even during those early days, Kuwait enjoyed a fully functional democratic Parliament. It aspired to ensure that Kuwait had full control over its own destiny and that her natural reserves benefited its future generations. Several other Arab countries had completely nationalised their oil industries. Iran had done so as early as 1951. 1973 witnessed the Arab-Israel war. OPEC emerged as a force to be reckoned with. Great Britain had withdrawn from the Gulf region. Yet, Kuwait's hydrocarbon resources had remained the property of the original foreign Kuwait Oil Company (KOC) concessionaires, the UK's British Petroleum (BP) and America's Gulf Oil. The situation could not continue in that manner; it was a question of Kuwait's national sovereignty. In October 1972, an agreement was reached between the KOC partners and Kuwait's former Minister of Finance and Oil, Mr. Abdulrahman Al- Ateeqi, for the government to acquire 25% of KOC. In 1983, that rose to 51% but it was rejected by Kuwait's parliament as being unsatisfactory. The popular demand for sovereignty over the country's resources was after all, too great for that. The parliament was concerned over the fact that Kuwait's oil resources were being extracted too rapidly and being converted into devaluating dollars. The parliament therefore instructed KOC to limit its production. At the time, BP and Gulf Oil appeared as being interested in quickly getting as much as possible out of Kuwait before KOC was nationalised. They pumped crude oil at an annual average of about 3.3 million bpd. At times, the figure reached as high as 3.7 million bpd per annum. This merely served to further increase the pressure for nationalisation.

THE EARLY YEARS:

The first definitive move came in early 1974. The Kuwait's State acquired 60% of KOC. During those days, apart from jobs for its citizens as well as having agency opportunities, Kuwait's source of revenue from the oil industry was only through royalties earned on the volume of oil pumped and a share of the profits through taxation from KOC and Aminoil, an American consortium which had held the Neutral Zone Concession since 1948 and had built the Mina Abdullah Refinery in 1958. The acquisition was under what was known as the 'Participation Agreement', dated January 29th 1974 and ratified by Law 9, later during the same year. The question had often been raised as to why Kuwait did not then take over all charge of KOC. The concept of 'participation' being partial ownership achieved by negotiation rather than complete Nationalisation was devised consciously because outright Nationalisation would disrupt relations between with the oil companies who controlled access to the markets, and would put the exporting countries in the business of selling oil. In addition to being a question of sovereignty, it was considered that oil is also very much a precious commercial commodity that presents lucrative business prospects. Kuwait would have to compete with other exporters for markets. Fears were that this would lead to a dramatic collapse in the price structure as each producing country tried to meet its national budget in the face of declining prices by moving larger volumes of oil to the market. Several other major OPEC producers had already moved, by then, on the path of outright nationalisation. However, it was not something, which Kuwait was ready for at the time. The original "1974 Participation Agreement" called for a review of the relationship between the Government and BP and Gulf Oil before the end of 1979. However, events moved quickly. In August 1974 the government formed the supreme petroleum council, Kuwait's apex oil body to consider how best to build the new indigenous oil industry. At the time, the Ministry of Finance and Oil were one organisation, but on 9th February 1975, it was divided into two separate Ministries with

Mr. Abdulrahman Al- Ateeqi assuming the Finance portfolio and Mr. Abdul Mutallab Al- Kazemi being appointed as the Minister of Oil. The following month, Kuwait announced that it would take over all of the oil industry and entered into discussions with the KOC partners, BP and Gulf. By December 1975, an agreement had been reached whereby the Government acquired the remaining 40% of KOC. The final agreement was signed for Kuwait by Oil Minister Abdul Muttaleb Al Kazemi, for BP by Mr. P.I Walters who later became BP's Chairman, and by Mr. M.L Ralston on behalf of Gulf. Parliament approved the deal with Law 10 of 1976.

THE GROWING YEARS:

During the mid 1970s, Kuwait was still a long way from having its own fully integrated oil industry. It did not enjoy the same position as other oil majors, who had by then already established their own markets for refined as well as crude oil from their fields. By mid 1970s, the government of Kuwait had acquired the most important part of the industry - the oil fields. It faced the challenge of figuring out how to make the best use of that resource. One of the most important developments that took place was the establishment of the Supreme Petroleum Council which brought together some of the best minds of the country. The task was to plan the future. Unhindered by problems such as bureaucratic interferences, the Council quickly succeeded in making its recommendations to the Government. The role of the Ministry of Oil was temporarily altered. Prior to Nationalisation, its main function had been overseeing the operations of the foreign oil companies, in addition to managing Kuwait's relationships with other oil producing and consuming countries. 1975 saw the takeover of KNPC and PIC followed in the on 16th March 1976. Aminoil with its Neutral Zone operations and Mina Abdullah Refinery were Nationalised on 19th September 1977. The Kuwait Wafra Oil Company was formed to take over its operations. In early 1978, the development of Kuwait's oil industry received a great boost when Sheikh Jaber Al Ahmad Al Sabah became the Amir. The Oil sector immediately set to the task of working on consolidating Kuwait's oil industry and turning Kuwait into a world-class player. On 17th June 1979, the Government further acquired KOTC as part of its immediate initiatives.

PERFORMANCE THROUGH INTEGRATION:

With all the major aspects of the oil industry under its control, the Government of Kuwait then set upon the task of working out the best way to make everything work in the most coordinated and efficient manner possible. The answer was KPC. Kuwait Petroleum Corporation (KPC) was formed in January 1980. The shares of KOC, KNPC, PIC and KOTC were transferred to the new Corporation. KPC successfully took all the oil companies under its umbrella and formed one integrated oil industry in Kuwait. The new structure allowed central planning of the industry, more effective and efficient distribution of work, close coordination between various bodies, in addition to the better use of engineering economies of scale that are crucial to a thriving oil industry. Each company was to focus on their own activity, which provided the commercial flexibility necessary to run a successful oil business. Furthermore, KPC took over the responsibility of marketing Kuwait's oil outside Kuwait, from the Ministry of Oil. Throughout the 1980's, expansion and integration occurred continued.

Domestic Operations:

All exploration and production operations fell under the command of KOC. In addition, KNPC assumed responsibility of Kuwait's three largest refineries. This allowed each company to specialise in its own field.

Foreign Upstream Operations:

In 1981, foreign upstream exploration interests held by KPC and the Ministry of Oil were consolidated into one entity, the Kuwait Foreign Petroleum Exploration Company (KUFPEC). In addition, KPC acquired Santa Fe, a US based drilling contractor.

Foreign Downstream Operations:

Between 1983 and 1987, KPC acquired most of Gulf Oil's refining and marketing operations in Western Europe, in addition to BP's Danish operations. Kuwait Petroleum International (KPI) was established in London to manage these interests. In 1986, the renowned Q8 Brand was launched. Other major expansions such as the purchase of Mobil network in Italy took place in the early 1990s. With a focus on international expansion, KPI began operations in Spain in 1992 and two years later acquired BP's Luxembourg assets. KPI penetrated the Italian market as well, with a refining joint venture with AGIP at Milazzo, and invested further in Italy's retail stations. Additional investment was made in Belgium and a further joint venture with OKF resulted in the birth of OKQ8; the biggest fuel retail market player in Sweden. In 2004, KPI decided to leave the UK market as the profitability was not sustained. The Company, however, expanded its market shares in the Netherlands by acquiring a part of BP network as well as an Automat network (TANGO). In Belgium, KPI become the second biggest market player due to the acquisition of BP and Aral networks. Airport refuelling operations throughout Western Europe and Hong Kong were also expanded. Today, KPI markets approximately 301,000 barrels of products per day in Western Europe with an additional 90,000 barrels per day being sold directly from its two refineries through more than 4,000 retail stations. It operates its own refinery in the Europort and Milazzo. The company is also looking into further international expansion in the near and Far East. Today, KPC is one of the world's most respected, trusted and reliable suppliers of energy. It has a long and proud history.



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